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DEPARTMENT FOR EUR/NCE; PLEASE PASS TO NSC FOR ADAM STERLING

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TAGS: PGOV KDEM ECON HU

SUBJECT: THE NO'S HAVE IT: PUBLIC REFERENDUM REJECTS REFORM INITIATIVES

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Record turn-out of 50.5 percent and overwhelming majorities voting against 3 elements of the government's reform agenda gave the opposition a clear victory in Hungary's national referendum March 9. With 82) 84 percent of respondents expressing opposition to the payment of nominal fees for hospital stays, doctors' visits, and student tuition, FIDESZ Party President Viktor Orban called the vote "a victory for all Hungarians." In televised remarks, Prime Minister Gyurcsany pledged to expedite legislation to reverse course by April 1 but claimed that the referendum had failed in its underlying goal of removing him from office. The results confirm the opposition's strength at the local level, reflect entrenched opposition to reform even within the ruling party, and could deal a telling blow to continued reforms reforms. End Summary.

NO DOUBT ABOUT IT

¶12. (SBU) Steady and surprising turn-out throughout the day and across the country) particularly in rural districts - set records and sent a strong message of opposition to elements of the Gyurcsany government's reform agenda. Voting passed without major incident, with several deaths from natural causes at polling stations and small crowds in Budapest dispersing at the request of the police late in the evening.

¶13. (SBU) With over 95 percent of the votes tabulated (and final results expected by the end of the week when some 3,000 overseas ballots are counted), 82) 84 percent of voters expressed their opposition to government initiatives to collect nominal fees for hospital stays, doctors' visits, and student tuition. Although the government's traditional stronghold of Budapest bucked the national average, voters in the capital still voted against the government measures by an average margin of 72) 28.

IMMEDIATE REACTION

¶14. (SBU) In a televised address from Parliament (delayed due to the failure of the audio feed), Prime Minister Gyurcsany reiterated his pledge to act in accordance with the referendum's results by moving quickly to end the collection of fees by April 1. (Note: Draft legislation to this effect was posted on the government's website by OOB March 10. End Note.) In a subsequent press conference at MSzP party headquarters, Gyurcsany referred to the results as "3 million people listening to their own pockets" by "voting not to pay for something they used to get for free." He underscored that the referendum had failed in its original and underlying objective of removing his government, and concluded that his commitment to making the case for continued reforms remains unshaken.

¶5. (SBU) In comments at FIDESZ party headquarters, Viktor Orban cast the results as "a victory not for one party but for all Hungarians." Citing the solidarity of young and old voters, he described the referendum as the greatest display of national unity since 1989 and called on the government to act in accordance with the wishes of society.

WINNERS AND LOSERS

¶6. (C) Although the smoke is still clearing) figuratively, for once) we draw the following initial conclusions from the referendum:

Socialist Voters Will Vote For Socialist Policies Over The Socialist Party: Even with record turnout in FIDESZ strongholds, the margin of victory suggests that significant numbers crossed party lines in order to vote against the payment of fees for services. Although Gyurcsany's tactics have made a hard sell even harder, the willingness of MSzP voters to ignore the party's subtle) and not-so-subtle - calls to stay home reflects the deeply ingrained sense of entitlement that cuts across generational lines.

Local Government Control Has Its Privileges: FIDESZ mobilization efforts were particularly impressive in long-time bastions such as Debrecen but also in communities they swept in the 2006 local elections. Their ability to marshal high turn-out in these communities attests to a strong grass-roots organization and further underscores the political and social division between "Red Budapest" and the regions. It also attests to their success in achieving a secondary goal articulated to the Ambassador months ago: to utilize the referendum as a tool to strengthen grassroots commitment to FIDESZ. By contrast, the MSzP and SzDSz were

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unable to agree on their tactics for the referendum, sending mixed signals to their supporters throughout the campaign. We can expect more of this theme of "the country versus the capital" in the months ahead.

Winners and Losers: Orban will benefit from the referendum) particularly by taking the high road in his public remarks. This should keep him firmly in control of FIDESZ, which will likely return to the well with a referendum on health care in the fall. It remains to be seen whether a stronger Orban will make the MSzP more or less likely to make an immediate move against Gyurcsany. Some will want to "bleed out" Hungary's economic ills before forcing him to step down. We note that Gyurcsany was careful to have the entire MSzP party leadership with him on stage as he spoke last night.

Reform RIP?: The ultimate loser from the referendum may be reform. Although the budgetary impact will be minimal (and impact on the health and education budgets rather than the central budget), the public rejection of measures many in the government regarded as "the easy part" of their reform plan will significantly weaken their hand on pending issues ranging from health care to tax reform. If, as one commentator concluded, "Hungary spent millions of dollars to prove that we won't pay the price of a glass of beer to see the doctor," it bodes ill for the more costly and controversial reforms the country needs. As former Central Bank President Zsigmond Jarai pointed out to the Ambassador last week, "a currency crisis is the only thing that will change the mentality."

FOLEY